

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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C O N F I D E N T I A L MADRID 7852

FOR STATE, TREASURY AND COMMERCE

E.O. 11652: GDS

TAGS: EFIN, PFOR, SP

SUBJECT: SPANISH ECONOMIC MEASURES: EARLY RETURNS

REF: MADRID 7753

1. THERE HAS BEEN NO STRONG REACTION TO THE ECONOMIC MEASURES ANNOUNCED LAST OCTOBER 8 EXCEPT FROM LABOR (REPORTED MADRID 7789). THE SPANISH PRESS HAS TAKEN AN AMBIVALENT ATTITUDE: ON THE ONE HAND THAT THE MEASURES ARE POSITIVE; ON THE OTHER HAND THAT SPAIN'S ECONOMIC PROBLEMS ARE GRAVE AND THE MEASURES ANNOUNCED ARE INSUFFICIENT. MANUFACTURERS AND MERCHANTS ARE REPORTED TO LEAN TO THE LATTER DESCRIPTION, SEEING THE MEASURES AS INADEQUATE TO REVERSE A TENDENCY TOWARDS FALLING SALES, GROWING PAYMENT PROBLEMS AND SOME BANKRUPTCIES. HOWEVER BUSINESS MEN, NOT LABORERS, WILL OF COURSE BE THE FIRST BENEFICIARIES OF SOME MEASURES ANNOUNCED LAST FRIDAY (INCLUDING WAGE GUIDELINES AND REVISION OF THE LABOR LAW TO PERMIT FREER FIRING.)

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2. THE 20 PERCENT IMPORT DUTY SURCHARGE MENTIONED IN REFTEL

WAS INSTITUTED BY A ROYAL DECREE LAW SIGNED OCTOBER 11. THE LAW IMPOSES A TEMPORARY SURCHARGE OF 20 PERCENT OF THE REGULAR DUTY, WHICH FOR MOST PRODUCTS WOULD HAVE ONLY A MODEST EFFECT. (FOR EXAMPLE, IF THE CURRENT DUTY IS 12 PERCENT, THE NEW DUTY INCLUDING SURTAX IS TOW 14.4 PERCENT.) CERTAIN AGRICULTURAL PRODUCTS, WHICH ALREADY ARE SUBJECT TO VARIABLE GOS LEVIES, AS WELL AS CAPITAL GOODS NOT MADE HERE AND THEIR PARTS, AND MACHINERY FOR JOINT SPANISH/ FOREIGN VENTURES FOR SIX MONTHS, AND IMPOSES NO ADDITIONAL IMPORT DOCUMENTATION REQUIREMENT. THE BXEW SURCHARGE MEASURE WOULD SEEM TO BE MORE EFFECTIVE AS A REVENUE-RAISER THAN AS A CORRECTIVE TO THE TRADE DEFICIT.

3. THE VAGUE STATEMENT ON GOVERNMENT CREDIT POLICIES CONTAINED IN THE MEASURES ANNOUNCED FRIDAY IS BEING INTERPRETED HERE TO MEAN THAT THE GOVERNMENT WILL IN SOME MANNER RAISE INTEREST RATES BUSINESS BORROWERS MUST PAY FOR LOANS. CURRENT RATE CEILINGS ARE LOW--GIVEN THE MUCH HIGHER INFLATION RATE.

4. THE GOS, ESPECIALLY MINFIN, IS BEING CRITICISED IN THE PRESS FOR ITS APPROACH TO PREPARATION OF THE BUDGET FOR FISCAL 1977 (SAME AS CALENDAR YEAR HERE). USUALLY BUDGET PREPARATION BEGINS IN THE SUMMER, AND THE GENERAL BUDGET LAW PROPOSAL MUST BE SENT TO THE CORTES BEFORE OCTOBER 15 (UNDER ARTICLE 93 OF CORTES PROCEDURE). EVEN IF THE GOVERNMENT BUDGET PROPOSAL IS APPROVED TODAY, OCTOBER 15, BUT THE COUNCIL OF MINISTERS AND IMMEDIATELY PASSED TO THE CORTES--AS IS EXPECTED-- IT MAY BE REVEALED AS A HASTILY ASSEMBLED PRODUCT. IN THE PRESENT CIRCUMSTANCES, THE OUTCOME MAY BE, IT IS SAID, A ROUGH EXTRAPOLATION OF THE PRESENT BUDGET EXPENDITURES, PLUS NEW COMMITMENTS, AND A SIMILAR APPROACH TO REVENUES. THIS COULD WELL LEAD TO A LARGER BUDGET DEFICIT THAN THIS YEARS LEVEL. THE PERSONAL INCOME TAX MEASURES ANNOUNCED FRIDAY, EVEN IF EFFECTIVE, WILL NOT HAVE AN IMPORTANT IMPACT ON THE BUDGET: SUCH TAXES CONSTITUTE ONLY SLIGHTLY MORE THAN ONE PERCENT OF GOS REVENUES. HOWEVER NO HARD JUDGMENT OF THE BUDGET CAN BE HAZARDED UNTIL THE GOVERNMENT'S OVERALL FISCAL PLANS ARE KNOWN AND HAVE BEEN ANALYZED.

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5. THERE HAS BEEN VERY LITTLE PUBLIC DISCUSSION OF THE APPARENT NEED FOR A FURTHER DEVALUATION OR DEPRECIATION OF THE PESETA, AND SOME SPANISH OFFICIALS CITE INELASTIC IMPORT DEMAND AS AN EXCUSE TO IGNORE THE ISSUE. ABC (MONARCHIST NEWSPAPER) EVEN SUGGESTED TUESDAY THAT A REVALUATION REPEAT REVALUATION WOULD BE A BETTER COURSE, ALTHOUGH SUCH FAULTY JUDGMENTS ARE CLEARLY NOT COMMON AMONG THE WELL-INFORMED HERE. MORE REPRESENTATIVE IS THE FOLLOWING CONCLUSION OF THE SUPERIOR

COUNCIL OF CHAMBERS OF COMMERCE: "IT IS IMPERATIVE IN THE SHORT TERM TO SOLVE THE PROBLEM OF LOW SPANISH EXPORT COMPETITIVENESS... BY AN ADEQUATE MECHANISM THAT WOULD PERMIT SPANISH MONEY TO REFLECT ITS TRUE VALUE..."

6. COMMENT: IT IS LIKELY THAT SPANISH ECONOMIC LEADERS ACCEPT THE NECESSITY OF A FUTURE CHANGE IN PESETA RATE, BUT ARE NOT WILLING TO TACKLE THE PROBLEM IN THE PRESENT POLITICAL ENVIRONMENT. PROBABLY THE STRATEGY HERE IS SOMETHING LIKE:
1) PRIVATELY DENY THE NECESSITY OF DEVALUATION, 2) INSTITUTE THE JUST-ANNOUNCED WAGE-PRICE CONTROL AND OTHER ECONOMIC MEASURES, 3) WRAP-UP FALL LABOR NEGOTIATIONS AND, THEN, IF STILL NECESSARY, 4) PERMIT THE PESETA TO FLOAT DOWNWARD OR DEVALUE. SPANISH LEADERS ADMIT THEIR PESSIMISM ABOUT CONTINUING MAJOR CURRENT ACCOUNT DEFICITS. SPAIN FACES A COMBINATION OF INVESTMENT AND BUSINESS STAGNATION, CAPITAL FLIGHT, INFLATION, FALLING INVISIBLES EARNINGS FROM TOURISM AND WORKER REMITTANCES, AND TRADITIONALLY HIGH, RELATIVELY INELASTIC IMPORT DEMAND. IN THE SHORT RUN, WAGE-PRICE CONTROLS COULD HELP CONTAIN INFLATION. SPAIN DID BENEFIT FROM THE FEBRUARY DEPRECIATION OF THE PESETA--AND A FURTHER CHANGE WOULD BE THE RESULT OF THE SAME FACTORS THAT LED TO THE LAST ONE. INFLATION CANNOT BE INDEFINITELY SUPPRESSED, OF COURSE, NOR CAN STRUCTURAL CHANGES BE POSTPONED INDEFINITELY HERE, AND MONETARY AND FISCAL TOOLS WILL NEED TO BE EMPLOYED MORE SUCCESSFULLY.
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